DECOUPLING BANKING CREDIT AND GDP GROWTH:
THE CASE OF INDONESIA

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ABSTRACT

Financial de-coupling occurs when the financial sector in an economy grows faster than the real sectors. It has been argued that in the countries where its financial sector grow is very dependent on domestic banks for credit and increasing degree of financial de-coupling, it would be difficult for the central bank to implement monetary policy in driving the growth of the real sectors. In a recent empirical research, the existence of disintermediation (i.e. de-coupling) in banking sectors has been a major investigation among researchers. The objective of this study is to test on whether or not the evidence of disintermediation exists in Indonesia. We use banking credit growth data and real GDP and production index as measures of real variables during the periods of January 1997 to April 2010. Using three different methods for detecting financial decoupling, our empirical results support the hypothesis that the financial de-coupling does exist.

JEL Classification : E5, E50, E51

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